



# **New Orleans Regional Transit Authority**

**Office of Internal Audit and Compliance**

**2023 Audit Work Plan**

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**CC:** The Executive Leadership Team  
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## **EXECUTIVE SUMMARY**

The Office of Internal Audit and Compliance (OIAC) has prepared the 2023 audit plan in accordance with IIA (Institute of Internal Auditors) Standards and RTA policies. In 2022 the OIAC conducted its first annual risk assessment. The risk assessment was used to determine the 2023 audit plan.

In 2022 the OIAC unit underwent a personnel shift, and as positions became vacant, it was determined that the OIAC would undergo a slight restructuring to allow for a greater emphasis on not only Internal Audit, but on Audit Compliance. Currently the position of Director of Internal Audit Compliance is vacant. However, the internal audit activity will be led by Malon Thompson, CFE, CIGA who serves as the Manager of Audit Compliance. Also, Jack Duffy, a Financial Data and Reporting Analyst, will work mainly on internal consulting, compliance, and special projects. The audit plan is based upon the full utilization of the current staffing level.

Pursuant to the 2023 Audit Work Plan and risk assessment, resources are assigned in the areas of highest risk and vulnerability to assess subject areas, and where appropriate, provide recommendations to improve internal controls, operations, and systems.

## **BACKGROUND**

### **Mission**

The Office of Internal Audit and Compliance (OIAC) is an independent, objective assurance and consulting department designed to add value and improve the Regional Transit Authority's (RTA) operations and to help the organization accomplish its objectives. This is done by developing a systematic, disciplined approach to evaluate and improve the efficiency and effectiveness of risk management, control, and governance processes.

### **Authority**

The authority of the OIAC is stated in the Internal Audit Charter. The OIAC is entitled to full, free, and unrestricted access to all records, physical properties, and personnel pertinent to carrying out any engagement at RTA. Employees are requested to assist the OIAC in fulfilling its roles and responsibilities.

### **Independence and Objectivity**

Per standards set forth by The Institute of Internal Auditors (IIA), the work performed by the OIAC must be independent and the auditors must be objective<sup>1</sup>. To maintain Independence and objectivity the OIAC ensures the following:

- The OIAC is free from interference in matters of audit selection, scope, procedures, frequency, timing, or report content
- The OIAC maintains no direct responsibility or authority over any of the activities audited, and do not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment

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<sup>1</sup> IIA Standard 1100 – Independence and Objectivity

## INTRODUCTION

In accordance with the International Standards for the Professional Practice of Internal Auditing (IIA Standards), and RTA's Internal Audit Policy, the OIAC is required to prepare a summary of planned audits for the next calendar year by December of the preceding year. This year marks the first year that the audit plan is based off an annual risk assessment<sup>2</sup>.

A risk assessment is a systemic process of identifying, analyzing, and evaluating risk. Risk is defined as "the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood."<sup>3</sup>

## RISK ASSESSMENT OVERVIEW

### Risk Assessment

Risk assessments are the foundations of an effective internal audit department. Internal audit departments use risk assessment to assess the risk of each auditable area within an internal audit universe to help determine the priority and therefore timing of when internal audits should occur. Risk assessments are not only based on current known information within the organization, but also information from the external environment e.g., evolving regulations, emerging risks, laws, and regulations. Risk assessments should be updated as and when new key information becomes available and not simply limited to a once-a-year exercise. As audits are conducted, the information compiled from the audits will have an ongoing effect on the organization's risk assessment.

### Risk Assessment Process

In conducting the risk assessment, the OIAC implemented a six-step process. The process is outlined briefly below:

1. Understand the Audit Universe  
The audit universe comprises 31 departments, each providing functions and services to the organization.
2. Identify Risks  
The OIAC created a survey that was completed by various levels of management, review financial statements, prior audits, relevant articles, and interviewed various managers and directors to identify considerable risk areas
3. Identify Risk Assessment Criteria  
The OIAC identified 14 specific risk areas across 4 different risk categories: Financial, Operational, Compliance, and Reputational
4. Assess Risk and Risk Interactions  
The OIAC used professional judgment and assigned likelihood and impact scores to each of the risk areas based on surveys interviews and research.
5. Prioritize Risk

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<sup>2</sup> The audit plan "must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process." International Standards for the Professional Practice of Internal Auditing (Standards) 2010.A1. Institute of Internal Auditors. Effective January 2017

<sup>3</sup> International Standards for the Professional Practice of Internal Auditing (Standards) Glossary. Institute of Internal Auditors. Effective January 2017

The OIAC ranked each entity from the highest risk to the lowest risk.

6. Develop the Risk Based Work Plan

The OIAC considered the results of the risk assessment and conducted an internal brainstorming meeting to develop the 2023 audit plan and establish priorities

## AUDIT PLAN

### OPEB Benefits Plan

The Regional Transit Authority provides certain continuing health care and life insurance benefits for certain retired former NOPSI employees. The Transit Management of Southeast Louisiana (TMSEL) Welfare Benefit Plan (the OPEB Plan) is a single employer defined benefit OPEB plan administered by the Regional Transit Authority. The authority to establish and/or amend the obligation of the employer, employees, and retirees rests with the Regional Transit Authority. The OIAC will conduct a performance audit with the following tentative objectives:

- To determine if the plan is being managed and administered effectively
- To determine if the cost of the benefits is accurately reported and monitored
- To determine if there are documented policies and processes for the OPEB plan.

### Self-Insurance and Structured Settlements

Self-insurance, sometimes called self-funding, is when your business forgoes traditional insurance coverage and takes on all the financial risk by setting aside money to pay employees' healthcare claims. Structured settlements are a type of financial arrangement negotiated from a legal settlement, which guarantees the recipient a series of financial payments over a defined number of years. Given the high-risk nature of these practices the OIAC will conduct a performance audit to:

- Review the contract of 3<sup>rd</sup> party Administrator and determine if the administrator is operating effectively,
- Determine if there is a documented process of review for the reports for self-insurance case reserves and structured settlement liabilities provided by the third-party administrator,
- Determine if the reports provided by the administrators are properly reconciled before submission to an actuary.

### Union Contact Compliance

As a result of the Timekeeping and Payroll Audit, it became clear that the OIAC needed to look further into the union Contracts of Amalgamated Transit Union Local Division 1560 fixed route and lift employees as well as the International Brotherhood of Electrical Workers Local Union 1700-4. As these contracts are close to expiring the OIAC will conduct a compliance audit on each existing contract to determine how well both parties complied with the contract, and areas for greater efficiency and effectiveness.

### Maintenance – Inventory Management

The Maintenance department contains large levels of inventory. This audit will be conducted by the OIAC to review inventory (maintenance and repair items, tools, and small equipment)

management practices for the department. The OIAC will conduct this audit with the following tentative objectives:

- Ensure that comprehensive policies and procedures have been established for maintenance inventory management, such as procedures over ordering, receiving, use and physical inventory.
- Ensure that maintenance inventory is adequately secured, maintained, and access is properly controlled.
- Ensure adequate controls are in place to mitigate risks and detect waste or abuse of funds or materials.

### **Information Technology – Systems and Applications Audit**

As a result of the risk assessment, it became clear to the OIAC that the organization utilizes a lot of systems and applications. The OIAC will conduct an IT audit with the following tentative objectives:

- Determine the effectiveness of access controls, the capabilities and characteristics of the software utilized by the organization, and the way the software is implemented
- Determining the interrelationships of the software to determine the usefulness of the software, and to highlight duplications of capabilities if present.
- Ensure that controls are in place to include, but is not limited to, data and program security, program change control, access controls, and other security provisions.

### **AUDIT GOALS**

#### **Formalize Audit Procedures and Workflow**

The OIAC is relatively new, and as the department has started building it has seen changes in personnel and structuring. Through 2023, the OIAC will work with Senior Management to continue formalizing Audit policies and finding ways to automate workflows to streamline the audit process.

#### **Implementing a Monitoring Program**

The monitoring of audit recommendations is completed through the follow-up phase of audits. Follow-ups are a process by which internal auditors evaluate the adequacy, effectiveness and timeliness of actions taken by management on reported observations and recommendations, including those by external auditors and others. This process also includes determining whether senior management and/or the board have assumed the risk of not taking corrective action on reported observations.

The OIAC will implement a monitoring program to track responses to recommendations and the implementation of corrective actions. In addition to that, the OIAC will determine the best way to report on the status of outstanding recommendations and corrective actions.

### **RESOURCE LIMITATIONS**

The OIAC does not currently have the appropriate staffing levels and resources to allow for the audit and consulting coverage of all the organizations' departments and functions. The 2023 Audit Workplan reflects these constraints, and it does not intend to provide coverage for all departments and functions. The 2023 Audit Workplan focuses on critical risk areas, but it also allows flexibility

so that the OIAC can add additional projects in response to changing circumstances or current information.